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RIVERFRONT PLAZA, EAST TOWER  
951 EAST BYRD STREET  
RICHMOND, VIRGINIA 23219-4074

TEL 804 • 788 • 8200  
FAX 804 • 788 • 8218

Kelly L. Faglioni  
Direct Dial: 804-788-7334  
EMAIL: KFLAGLIONI@HUNTON.COM

November 20, 2001

File No: 46001.000278

**Via UPS-Next Day**

Ms. Magalie R. Salas  
Secretary  
Federal Communications Commission  
445 Twelfth Street, S.W.  
Washington, D.C. 20554

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*WorldCom, Cox, and AT&T ads. Verizon*  
CC Docket Nos. 00-218, 00-249, and 00-251

Dear Ms. Salas:

Enclosed please find four copies of Verizon VA's Rebuttal Testimony On Performance Issues (Issue Nos. III-14, IV-120, IV-121, IV-130 and VII-18). Please do not hesitate to call me with any questions.

Sincerely,

Kelly L. Faglioni  
Counsel for Verizon

KLF/ar  
Enclosures

cc: Dorothy T. Attwood, Chief, Common Carrier Bureau (8 copies) (Via UPS-Next Day)  
Jeffery Dygert (w/o enclosure) (by mail)  
Katherine Farroba (w/o encl.) (by mail)  
John Stanley (w/o encl.) (by mail)

With enclosures, via email, telecopy, and UPS-Next Day delivery:  
Jodie L. Kelley, counsel for WorldCom  
Kimberly Wild, counsel for WorldCom

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Ms. Magalie R. Salas  
November 20, 2001  
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David Levy, counsel for AT&T  
Mark A. Keffer, counsel for AT&T  
J.G. Harrington, counsel for Cox  
Carrington F. Philip, counsel for Cox

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of	)	
Petition of WorldCom, Inc. Pursuant	)	
to Section 252(e)(5) of the	)	
Communications Act for Expedited	)	
Preemption of the Jurisdiction of the	)	CC Docket No. 00-218
Virginia State Corporation Commission	)	
Regarding Interconnection Disputes	)	
with Verizon Virginia Inc., and for	)	
Expedited Arbitration	)	
	)	
In the Matter of	)	CC Docket No. 00-249
Petition of Cox Virginia Telecom, Inc., etc.	)	
	)	
In the Matter of	)	CC Docket No. 00-251
Petition of AT&T Communications of	)	
Virginia Inc., etc.	)	

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**VERIZON VA'S REBUTTAL TESTIMONY ON PERFORMANCE ISSUES**  
(ISSUE NOS. III-14, IV-120, IV-121, IV-130 AND VII-18)

- JULIE CANNY
- MONIQUE M. LYNNES

NOVEMBER 20, 2001

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**I. WITNESS BACKGROUND**

**Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.**

A. My name is Julie A. Canny. I am the Executive Director - Regulatory Support for Wholesale Performance Assurance. My business address is 1095 Avenue of the Americas, Room 2842, New York, New York, 20036.

A. My name is Monique M. Lynnes. I am a Manager for Wholesale Performance Assurance. My business address in 1800 41<sup>st</sup> St, Everett, Washington, 98201.

**Q. ARE YOU THE SAME WITNESSES WHO FILED DIRECT TESTIMONY IN THIS CASE ON NOVEMBER 9, 2001?**

A. Ms. Canny filed direct testimony on these issues on November 9. Ms. Lynnes has been added to the panel.

**Q. MS. LYNNES, PLEASE SUMMARIZE YOUR BACKGROUND AND EXPERIENCE IN THE TELECOMMUNICATIONS INDUSTRY.**

A. In 1991, I received a Bachelor of Science degree from the University of Tennessee. In 2000, I earned a Master of Arts degree in Economics from the University of Washington with a concentration in econometrics. I began work for Demand Analysis and Forecasting at GTE in June 1999. In December of 2000, I joined Wholesale Performance Assurance, a group that evolved from the merger of GTE and Bell Atlantic.

1 **Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT**  
2 **POSITION?**

3 A. My responsibilities include developing economically-based incentives and  
4 statistical methodologies for performance assessment plans associated with  
5 wholesale service provision by Verizon's local operating telephone companies.  
6

7 **Q. MS. LYNNE, HAVE YOU TESTIFIED BEFORE?**

8 A. Yes, I have testified on statistical issues surrounding the Pennsylvania  
9 performance assurance plan. I also have presented a critique of AT&T's error  
10 balancing PIP during AT&T's presentation in Rhode Island. In addition to  
11 previous testimony, I have participated in the development of the "per  
12 occurrence" performance assurance plans and associated workshops in a number  
13 of states, including California, Florida, and Nevada.  
14

15 **II. PURPOSE AND OVERVIEW OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. The purpose of our testimony is to respond to the direct testimony concerning  
18 Performance issues filed by Karen Kinard and Margaret T. Pearce on behalf of  
19 WorldCom and by Michael Kalb and E. Christopher Nurse on behalf of AT&T.  
20

21 **Q. CAN YOU GIVE AN OVERVIEW OF YOUR TESTIMONY?**

22 A. Our testimony addresses three general subjects. First, we reiterate briefly why the  
23 implementation of a performance assurance plan should await the results of the

1 proceedings currently before the Virginia State Corporation Commission  
2 (Virginia Commission). Just last week, the Virginia Commission issued a  
3 scheduling order in the remedies phase of its collaboratives. The accelerated  
4 schedule in that case leaves little doubt that the Virginia Commission will adopt a  
5 performance assurance plan at (or perhaps before) this Commission rules on a  
6 plan and that plan is memorialized in an agreement. Second, assuming this  
7 Commission decides to adopt an interim plan, we explain why this Commission  
8 should adopt Verizon VA's plan. Third, we explain the serious and irremediable  
9 deficiencies that make the proposals of WorldCom and AT&T unacceptable,  
10 unworkable, and contrary to the interests of Virginia's consumers.

11  
12 **III. AN INTERIM PERFORMANCE ASSURANCE PLAN IS UNNECESSARY IN**  
13 **LIGHT OF THE PROCEEDINGS BEFORE THE VIRGINIA COMMISSION**

14 **Q. BOTH AT&T AND WORLDCOM INSIST THAT THIS COMMISSION**  
15 **SHOULD ADOPT AND IMPOSE A PERFORMANCE ASSURANCE PLAN**  
16 **ON VERIZON. DO YOU AGREE?**

17 A. No. As this Commission knows, the Virginia Collaborative participants have  
18 reached agreement on a virtually complete set of performance measures and  
19 standards, which this Commission has adopted for use in this arbitration.  
20 Moreover, the Virginia Commission opened a docket for the development of a  
21 generally applicable PAP. Just as it has done with respect to performance  
22 measures and standards, there is no reason that this Commission should not also  
23 use the PAP that will emerge from the Virginia Commission proceedings. The  
24 reasons why the Virginia Commission's PAP should apply to an interconnection

1 agreement between Verizon VA and the Petitioners are explained in greater detail  
2 in Verizon VA's Direct Testimony at pp. 3-8.

3  
4 **Q. WHY SHOULDN'T THE COMMISSION IMPOSE AN INTERIM PAP**  
5 **PENDING THE RESULTS OF THE VIRGINIA COMMISSION**  
6 **PROCEEDINGS?**

7 A. There are at least four reasons why there is no need to impose an interim PAP.  
8 First, the Virginia Commission has acted with dispatch throughout the  
9 collaborative proceedings. There is every reason to believe it will continue to do  
10 so. Indeed, the Virginia Commission has announced a schedule for the incentive  
11 plan docket that indicates a statewide PAP will be forthcoming quite soon. That  
12 schedule requires proposals to be submitted by November 30 and comments and  
13 requests for hearings by December 21. *See* November 16, 2001 Order of the  
14 Virginia Commission, PUC010226, attached as Exhibit A. This schedule creates  
15 a very good chance that the Virginia Commission's final PAP will be announced  
16 contemporaneously with -- if not before -- any PAP adopted by this Commission.  
17 Moreover, any PAP resulting from this proceeding would not take effect until the  
18 agreements were finalized and signed, again leading to the likely conclusion that  
19 the Virginia Commission PAP will be finalized and in effect prior to any  
20 agreement resulting from this arbitration. Anything done in this arbitration thus is  
21 likely to be duplicative and unnecessary, not to mention costly and time-  
22 consuming.



1 Second, the Virginia Commission proceedings include not only the parties to this  
2 arbitration, but practically all interested parties in Virginia. The PAP that the  
3 Virginia Commission is developing will apply to all CLECs in Virginia. A PAP  
4 that reflects the input and concerns of all affected parties is preferable to a plan  
5 that is based on the particular, even unique, concerns of a few, creating the  
6 optimum scenario for fair and non-discriminatory treatment of all CLECs. In  
7 contrast, an interim plan would involve the implementation of performance  
8 assessment for all CLECs in Virginia in order to calculate remedies payable only  
9 to WorldCom and AT&T. The fact that Petitioners' proposals require  
10 implementation of performance assessment for all CLECs in Virginia supports  
11 Verizon VA's argument that the Virginia proceedings is the appropriate forum for  
12 establishing such assessment and related PAP. By the same token, the failure of  
13 Petitioners to explain how or why an industry-wide assessment should be  
14 implemented through their particular interconnection agreements itself  
15 demonstrates the inappropriateness of including the associated PAP in such an  
16 agreement.

17  
18 Third, imposition of an interim plan requires Verizon VA to expend time, effort,  
19 and money to implement the interim plan. The cost of doing that is considerable.  
20 In fact, it is not clear that Verizon VA could finish implementing an interim plan  
21 before the Virginia Commission adopts a PAP. And if the interim plan is  
22 superseded by the Virginia Commission's PAP—as it should be—then Verizon  
23 VA has to incur those costs all over again. That is wasteful, inefficient, and

unnecessary. It does not serve the interests of Virginia's consumers. Put another way, the marginal benefit to consumers—assuming there is any—of adopting either of the Petitioners' plans on an interim basis is wholly inadequate to warrant the cost of doing so.

Fourth, Verizon VA already has implemented the measures and standards and associated PAP adopted in the *BA/GTE Merger Order*. The measures and standards implemented as a result of the *BA/GTE Merger Order* are based on the measures and standards developed in the New York Carrier-to-Carrier collaborative process. That plan offers sufficient incentives to ensure that Verizon VA continues to deliver excellent service to CLECs.

#### **IV. IF THE COMMISSION DECIDES ON AN INTERIM PLAN, VERIZON VA'S INTERIM PLAN IS SUPERIOR TO PETITIONERS' PLANS**

##### **Q. IF THE COMMISSION DECIDES TO ADOPT AN INTERIM PLAN, WHY SHOULD IT BE VERIZON VA'S?**

A. The Commission should adopt Verizon VA's interim plan as proposed in the Direct Testimony, and the associated contract language applicable for both AT&T and WorldCom (attached as Exhibit B). Verizon VA's interim plan is based on the measures, standards, and remedies already reviewed and approved by this Commission. The Virginia Commission is proceeding on a definite time line to implement an industry-wide solution. Although AT&T and WorldCom claim they need a PAP in the context of an interconnection agreement, each proposes a

1 PAP that requires implementation of industry-wide measures in order to  
2 determine the remedy payments appropriate to AT&T and WorldCom. If  
3 AT&T's or WorldCom's respective interconnection agreement plan does not  
4 coincide with the *BA/GTE Merger Order* Plan or the PAP that results from the  
5 Virginia proceedings, Verizon VA will be unfairly asked to implement three, and  
6 potentially four sets of industry-wide measures (more if other CLECs are  
7 permitted to ask for individual treatment in the context of an interconnection  
8 agreement). Consequently, and putting aside the deficiencies in the Petitioners'  
9 plans, the Verizon VA plan is superior for interim implementation in three  
10 essential ways.

11  
12 First, Verizon VA's interim plan can be implemented with minimal lag time  
13 compared to Petitioners' plans. Verizon VA's interim plan takes maximal  
14 advantage of the monitoring and reporting that Verizon VA already is carrying  
15 out. That means that the costs of implementation are lower and that the benefits of  
16 the plan are realized more rapidly.

17  
18 Second, as discussed in the Direct Testimony, Verizon VA's interim plan allows  
19 for remedy payments directly to AT&T and WorldCom associated with any  
20 noncompliance in the service provided to them. Thus, Verizon VA's interim plan  
21 adequately addresses both incentives to perform and remedies for non-  
22 performance.

1

2 Third, Verizon VA's interim plan represents the option that intrudes the least on  
3 the ongoing Virginia proceedings. In particular, Verizon VA's interim plan is the  
4 only one that does not prejudge the merits of the matters before the Virginia  
5 Commission.

6

7 **Q. DOES WORLDCOM AGREE THAT THE COMMISSION SHOULD NOT**  
8 **"REINVENT THE WHEEL" IN THIS PROCEEDING?**

9 A. Yes. In WorldCom's Direct Testimony at 6, WorldCom asserts that the  
10 Commission should not "reinvent the wheel" in this proceeding. However, in  
11 light of WorldCom's insistence that this Commission duplicate the efforts of the  
12 Virginia Commission in the context of this arbitration, WorldCom's testimony is  
13 perplexing. Moreover, WorldCom's asserted preference for taking "advantage of  
14 the hard work that went into development the New York Plan" rather than taking  
15 advantage of the hard work associated with the Virginia proceedings deserves no  
16 deference.

17

18 Despite their asserted need for a remedies plan in the context of their respective  
19 interconnection agreements, neither AT&T nor WorldCom propose plans that  
20 make sense in an interconnection agreement or that make sense in light of the  
21 ongoing Virginia proceedings. Instead, by seeking this Commission's attention  
22 on their respective remedies proposals, it appears that their real goal is for this

1 Commission to prejudge the substantive issues that will have impact beyond their  
2 respective interconnection agreements. When crafting plans to be implemented in  
3 Virginia, this Commission should be more sensitive to the work of the Virginia  
4 Commission, the duplication of resources in Virginia, and the potential for  
5 prejudging the work of the Virginia Commission.

6  
7 **V. THE PETITIONERS' PLANS ARE DEFICIENT**

8 **Q. HAVE YOU REVIEWED AND ANALYZED THE PERFORMANCE**  
9 **ASSURANCE PLANS PROPOSED BY WORLDCOM AND AT&T?**

10 A. Yes.

11  
12 **Q. DOES EITHER OF THOSE PLANS CONSTITUTE AN ACCEPTABLE**  
13 **PAP?**

14 A. No, both plans suffer from serious deficiencies that make them unacceptable and  
15 unsuitable.

16  
17 **Q. IS THE PERFORMANCE INCENTIVE PLAN (PIP) PROPOSED BY**  
18 **AT&T IN THIS PROCEEDING THE ONLY PLAN AT&T IS**  
19 **PROPOSING?**

20 A. No, AT&T also—perhaps even mainly—is supporting a version of the New York  
21 PAP. It is worth noting that AT&T withdrew its PIP proposal from the Virginia  
22 Collaborative.

1

2 **Q. GENERALLY SPEAKING, WHY IS AT&T'S PIP DEFICIENT?**

3 A. AT&T's plan suffers from two major flaws. It imposes penalties that have no  
4 rational economic basis and far exceed the level necessary to create proper  
5 incentives. And it is based on a statistical methodology that lacks widespread  
6 acceptance in the academic community and skews the plan egregiously in favor of  
7 the CLEC with no corresponding benefit to consumers.

8

9 **Q. EXPLAIN WHAT YOU MEAN WHEN YOU SAY AT&T'S PIP PLAN**  
10 **IMPOSES PENALTIES THAT HAVE NO RATIONAL ECONOMIC**  
11 **BASIS.**

12 A. The goal of any performance incentive plan is to provide the ILEC with adequate  
13 incentive to meet the performance standards. For that purpose, it is critical to set  
14 the dollars at risk for noncompliance with the plan at an appropriate level.  
15 Payments that are too high result in "over-deterrence." That is, payments that are  
16 too high force Verizon VA to make excessive (and large) investments in  
17 wholesale systems and personnel to avoid making the incentive payments. The  
18 inevitable consequence of over-investment in wholesale service is under-  
19 investment in other areas, such as introduction of new technologies for both retail  
20 and wholesale customers. In other words, incentive payments set at too high a  
21 level inappropriately will force Verizon VA to focus on wholesale customers at  
22 the expense of retail customers. CLECs benefit from such a system, but the  
23 consumer does not.

1

2 This anti-consumer effect is exacerbated if the plan requires, as AT&T's plan  
3 does, large payments to CLECs for non-compliance that has minor impact on  
4 consumers. In that circumstance, CLECs have greater incentive to maximize  
5 incentive payments rather than to improve, maintain, or restore service to their  
6 customers. For example, if incentive payments are too high, a CLEC may be  
7 rewarded if it does not report problems promptly, refuses to work with Verizon  
8 VA to prevent operational problems, or even engages in conduct designed to  
9 cause Verizon VA to fail to meet its performance standards. Moreover, excessive  
10 incentives could discourage a CLEC from investing in its own systems and  
11 facilities, since it cannot realize incentive payments on such systems and facilities.

12

13 **Q. IS OVER-DETERRENCE A PROBLEM WITH AT&T'S PLAN?**

14 A. Yes, it is. If Verizon VA missed just ten of the hundreds of measures included in  
15 the Virginia Guidelines in a month for just one active CLEC (an amount less than  
16 five percent of the measures), so that a penalty of "only" \$25,000 per measure  
17 applied, Verizon VA would owe \$250,000 per CLEC. If just ten CLECs had  
18 ordering or maintenance activity in Virginia, this could be as much as \$2.5 million  
19 dollars per month.<sup>1</sup> Over the course of a year, this could amount to \$30 million.  
20 If thirty CLECs had ordering or maintenance activity in Virginia and missed on  
21 the same 10 measures, the penalties could total \$90.0 million per year. More  
22 extreme, if fifty CLECs had ordering or maintenance activity in Virginia, still

1 missing on the same 10 measures, the penalties could total \$150 million per year.  
2 These huge penalty amounts would apply even if only a very small percentage of  
3 the total number of metrics were missed for each CLEC.<sup>2</sup>  
4

5 Ultimately, AT&T's plan is without any sound economic underpinnings. AT&T  
6 provides no support for why its proposal is economically rational, that is, why it  
7 meets the objective of providing Verizon VA with an adequate incentive to meet  
8 performance standards, but at the same time does not impose penalties that simply  
9 confiscate Verizon VA's financial resources for minor failures to meet standards,  
10 with the attendant anti-consumer consequences of over-deterrence discussed  
11 above.  
12

13 **Q. YOU ALSO TESTIFIED THAT AT&T'S PLAN IS BASED ON A**  
14 **STATISTICAL METHODOLOGY THAT LACKS WIDESPREAD**  
15 **ACCEPTANCE IN THE ACADEMIC COMMUNITY AND SKEWS THE**  
16 **PLAN EGREGIOUSLY IN FAVOR OF THE CLEC WITH NO**  
17 **CORRESPONDING BENEFIT TO CONSUMERS. PLEASE EXPLAIN.**

18 A. A central feature of AT&T's plan is an error balancing methodology that purports  
19 to balance two types of errors. Type I error is the error of finding that Verizon

---

<sup>1</sup> There are approximately 200 certified CLECs in Virginia.

<sup>2</sup> AT&T's proposed penalty amounts are particularly egregious when it is considered that for measures with "Parity" standards, statistical randomness alone, unless properly compensated for (which AT&T's plan does not do), will result in five percent of the measures being missed. Moreover, its proposed "Procedural Cap" is meaningless because it would still require Verizon



1 VA has failed to meet a standard, when it actually has met the standard. Type II  
2 error is the error of finding that Verizon VA has met a standard, when it actually  
3 has not met the standard. Rather than using a standard statistical method to  
4 account for Type I error, AT&T incorrectly proposes to “balance” Type I and  
5 Type II statistical error. Error balancing is not an accepted practice in the  
6 academic arena, yields uncertain results, and is completely unnecessary.  
7 Consequently, it should not be implemented in a regulatory context.

8  
9 To begin with, the fact is that the consequences to the consumer of committing a  
10 Type II error are unknown and likely negligible. The asserted rationale for  
11 AT&T’s novel and untested approach is that balancing the probability of making a  
12 false detection of “out-of-parity” (Type I error) against the probability of making  
13 a false detection of “in parity” (Type II error) balances the risk faced by Verizon  
14 VA and CLECs. However, the fact that a false determination of parity (Type II  
15 error) occurs does not mean that the CLEC experiences a market share loss,  
16 especially since the occurrence of Type II error increases as service to the CLEC  
17 *improves*. This implies that the end user is unlikely to perceive so-called “poor”  
18 service when a Type II error goes undetected. And indeed, AT&T has not  
19 demonstrated—and cannot demonstrate—that a CLEC suffers harm when a Type  
20 II error is committed. However, if a Type I error occurs (false rejection of parity),  
21 the ILEC will have to make an incentive payment—thus the ILEC is *always*

---

VA to escrow penalties for the amounts over the procedural cap while Verizon VA sought relief.  
*See AT&T Plan*, at 21-23.

1       harmed by a Type I error. In other words, AT&T's abstract methodology  
2       proposes to mitigate wholly speculative harms to CLECs by inflicting certain  
3       harm to Verizon VA.

4  
5       Another problem with AT&T's methodology is that it yields a volatile Type I  
6       error rate. This means that error balancing cannot yield the clear signals  
7       necessary for Verizon VA to effectively maintain or improve its OSS in a timely,  
8       effective manner.

9  
10      In light of these problems, the Commission should not abandon a well-tested,  
11      consistent and commonly applied statistical methodology in favor of an untested  
12      error balancing methodology. Error balancing has not undergone peer review and  
13      should be viewed with considerable skepticism until it has successfully undergone  
14      rigorous academic critique.

15  
16      This is all the more true because the statistical somersaults required by AT&T's  
17      methodology are completely unnecessary to arrive at the correct balance between  
18      Type I error and Type II error. AT&T's own expert statistician, Dr. Colin  
19      Mallows, has said that a 95% confidence level (a 5% alpha value), correctly  
20      accounts for Type I and Type II error. In 1998, in an affidavit filed in a  
21      proceeding before this very Commission, Dr. Mallows stated:

22               If we apply a large number, several hundred, perhaps, of tests of  
23               individual performance measurement comparison, each test having  
24               a Type I error rate of 5%, then we would expect, on average, about

1 5% of these tests to indicate non-compliance even when the ILEC  
2 is actually fully in compliance. Thus the fact that this many tests  
3 indicate non-compliance does not give conclusive evidence that the  
4 ILEC is not in compliance with its Section 251 nondiscrimination  
5 obligations. The number of tests that erroneously indicate non-  
6 parity will vary randomly about this average number. We need to  
7 derive some threshold number of failed parity tests such that if  
8 more than this number are observed to fail, then non-compliance  
9 can be deduced. This threshold number of tests must be  
10 determined in such a way as to control the probability of an overall,  
11 or aggregate, Type I error.<sup>3</sup>

12  
13 If we choose to make the Type I error small, then the Type II error  
14 will be large; and conversely. AT&T proposes to set the Type I  
15 error at no more than the conventional level of 5%. This controls  
16 the frequency of false alarms to be at most 5% *while making the*  
17 *probability of Type II errors small for violations that are of*  
18 *substantial size. Using a one-tailed test for Type I error at about*  
19 *the 5% level thus strikes a reasonable balance* (emphasis added).<sup>4</sup>  
20

21 Verizon VA has proposed using the standard accepted 95% confidence level (5%  
22 significance level) that is commonly found in statistical texts and that was  
23 accepted by Dr. Mallows.<sup>5</sup> Accordingly, under the Verizon VA interim proposal,  
24 there is no need to engage in Type I/Type II error balancing.  
25

26 **Q. ARE THERE ANY FLAWS IN THE MANNER IN WHICH AT&T'S PLAN**  
27 **MEASURES THE SEVERITY OF VERIZON VA'S NONCOMPLIANCE**  
28 **WITH A STANDARD?**

---

<sup>3</sup> "Affidavit of Dr. Colin Mallows" before the Federal Communications Commission in CC Docket No. 98-56, RM 9101.

<sup>4</sup> "Affidavit of Dr. Colin Mallows" before the Federal Communications Commission in CC Docket No. 98-56, RM 9101.

<sup>5</sup> See, e.g., Bradley Efron and Robert J. Tibshirani, *An Introduction to the Bootstrap*, Chapman & Hall, International Thomson Publishing, p.204 (1993).

1 A. Yes. As an initial matter, it is important to note that the importance of measuring  
2 the severity of any noncompliance with a standard (a “miss”) lies in the quest to  
3 understand the impact on end-users in an effort to ensure parity of performance  
4 from Verizon VA (i) to the CLEC and (ii) to a retail end-user. Despite this goal,  
5 and the fact that real data exist to compare actual performance to the CLEC versus  
6 actual performance at retail, AT&T nevertheless invents an abstract mathematical  
7 concept that fails to accomplish the purported objective of measuring severity or  
8 providing meaningful data that allows Verizon VA to make performance  
9 corrections to achieve parity.

10  
11 Specifically, rather than simply evaluating the “miss” in terms of the actual  
12 performance to the CLEC compared to the actual performance at retail -- or the  
13 units applicable to each measure or sub-measure -- AT&T advocates use of a  
14 mathematical construct, which AT&T incorrectly claims will measure the severity  
15 of a miss by using a modified z-statistic and the balancing critical value, a value  
16 AT&T expresses through the ratio  $z/z^*$ . However, as a matter of statistics, you  
17 cannot use a Z score as a measure of severity. A Z score is not a measure of  
18 actual disparity in performance. It measures statistical confidence.

19  
20 Moreover, AT&T has made no attempt to demonstrate (as it is impossible to do  
21 so) that (i) end users perceive changes in  $z/z^*$  or (ii) changes in  $z/z^*$  will influence  
22 an end-user’s decision about its provider. For this reason, it is more appropriate,

1 as Verizon VA proposes, to evaluate severity of the miss in terms of the units  
2 belonging to each sub-measure.

3  
4 This is true for another reason. In addition to proposing an indirect and  
5 convoluted method for purporting to compute severity, AT&T has introduced a  
6 complex formula for computing the actual dollar amount for incentive payments.<sup>6</sup>  
7 On top of the  $z/z^*$  score, AT&T's payment calculation methodology succeeds in  
8 divorcing remedies payments from performance. Quite simply, AT&T's method  
9 of calculating and remedying a miss fails to tell Verizon VA's managers in  
10 understandable terms what must be done to improve performance. Incentive  
11 systems, though, function better when the party who is supposed to respond to the  
12 incentives is able to predict the consequences of its behavior. The complexity of  
13 the AT&T approach does not adhere to this precept.

14  
15 **Q. DOES AT&T'S METHODOLOGY DEAL APPROPRIATELY WITH**  
16 **SMALL SAMPLE ISSUES?**

17 A. Not at all. In fact, one consequence of applying AT&T's methodology to small  
18 samples is that the *lower* the level of statistical confidence that Verizon VA has  
19 missed a measure, the *higher* the likelihood that a remedies payment will be  
20 required. That doesn't make any sense especially when the lower level of

---

<sup>6</sup> See AT&T Plan, at 11, Table 1.

1 statistical confidence is associated with smaller samples that may not accurately  
2 represent Verizon VA's true performance.<sup>7</sup>

3  
4 AT&T's methodology makes no adjustment for this fact in dealing with small  
5 sample sizes. Under AT&T's proposal, if the statistics from a small sample  
6 indicate that Verizon VA has missed a measure, AT&T's methodology requires a  
7 remedy payment to the CLEC even though the probability that the statistics  
8 wrongly indicate noncompliance is, statistically speaking, huge. This kind of  
9 inequity is wholly inappropriate.

10  
11 Due to a fluctuation in sample size, the volatile alpha level has additional negative  
12 impact on the ILEC. That level can change from month to month for a given sub-  
13 measure and a given CLEC. If, for instance, the alpha for Mean Time to Repair is  
14 5% one month and 30% the next month, failing both times, it is difficult to assess  
15 whether or not the failure in the second month was actually due to a performance  
16 decline or to a Type I error. As noted above, even if performance in reality has  
17 not changed, it is much easier to reach a conclusion of 'out-of-parity' when alpha  
18 equals 30% than when alpha equals 5%.

19  

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<sup>7</sup> AT&T acknowledges the influence of small sample sizes on assessing whether a miss has occurred when, referring to its modified Z statistic, it states, "This balance point is a function of the size of the CLEC data set ..." (AT&T Plan, at 9).

1 Furthermore, error balancing relies on the assumption that the data are normally  
2 distributed. This is a far cry from reality particularly for small data sets like those  
3 found in Virginia. Also, it is often the case that large data sets violate this  
4 assumption. For either case, error balancing is entirely inappropriate.

5  
6 Verizon VA's interim proposal requires a consistent level of confidence in  
7 accessing every measure, and the level of confidence required is the level  
8 customarily required in the field of statistics. Given that improved performance is  
9 the ultimate goal of an incentive plan, consistency across time periods is essential.  
10 Essentially, error balancing compromises the information available to Verizon VA  
11 that is necessary to improve its OSS every month.

12  
13 **Q. ARE THERE ANY OTHER DEFICIENCIES IN AT&T'S PIP?**

14 A. Yes. But because AT&T shifts its support to a version of the New York PAP, we  
15 focus on four of the larger problems.

16  
17 First, the AT&T plan fails to identify the measures and standards from the  
18 Virginia Guidelines to which the AT&T plan would apply. To the extent that  
19 AT&T proposes to apply its plan to every measure with a standard, this would be  
20 inappropriate because many of the measures are overlapping and duplicative,  
21 measuring the same conduct in different ways or from different perspectives.  
22 Verizon VA should not be subject to duplicative penalties for the same conduct.

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Second, in addition to inordinate incentives, AT&T proposes yet more layers of payments, purportedly to enforce the operation of the plan.<sup>8</sup> For instance, AT&T recommends that substantial financial penalties be imposed on Verizon VA for late, incomplete, or revised performance reports. These kinds of penalties are unnecessary and counterproductive. There is no basis for an assumption that Verizon VA will hide bad reports. Moreover, while Verizon VA will strive to reduce technical problems in generating reports, Verizon VA should not be subject to penalties if it occasionally experiences such problems. Finally, it would create perverse incentives to impose penalties on Verizon VA for correcting performance reports to ensure their accuracy. This Commission should reject such counterproductive and unnecessary penalties.

Third, AT&T fails to recognize the necessity for a pre-set overall cap on Verizon VA's liability and instead proposes only a "procedural cap." Verizon VA has proposed high caps that will allow substantial incentives to be paid to CLECs, but at the same time will protect Verizon VA's retail customers from the service disruptions that could result if unlimited amounts of penalties could be assessed. Remedy caps are a common feature of incentive plans. They should be set in advance so that Verizon VA does not have to rely on subsequent proceedings to assess whether it may be subject to penalties that could deprive it of the resources that it needs to serve all its customers.



1

2 Finally, the AT&T plan sets out a very elaborate process for Verizon VA to claim  
3 relief from the effects of a force majeure event. While Verizon VA agrees that  
4 there is a need for a process for Verizon VA to claim relief from the effects of a  
5 force majeure event or similar problem, the process laid out in the force majeure  
6 provisions of the section of Verizon VA's proposed interconnection agreement  
7 addressing its interim PAP proposal is simpler and more likely to result in an  
8 expeditious resolution of force majeure and similar issues.

9

10 **Q. HAS WORLDCOM PROPOSED A PERFORMANCE ASSURANCE PLAN**  
11 **IN THIS PROCEEDING?**

12 A. Yes.

13

14 **Q. WHAT ARE THE DEFICIENCIES OF THAT PLAN?**

15 A. As an initial matter, WorldCom is simply wrong when it asserts that Verizon VA  
16 "could not credibly claim any administrative difficulties in implementing the  
17 [New York] Plan." WorldCom Direct Testimony at p.7. WorldCom's claim is  
18 premised on the assumption that the metrics on which the Virginia Collaborative  
19 participants have reached consensus are the same as the metrics derived from the  
20 New York Plan. They are not. Not all the measures used in the New York Plan  
21 have the same definition as the corresponding measures from the Virginia

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<sup>8</sup> See AT&T Plan, at 26-27.

1 collaborative proceeding. The Virginia Collaborative addressed some Virginia-  
2 specific changes. In the Virginia Collaborative, Verizon VA proposed a time  
3 schedule for implementation of reporting the various measurements upon final  
4 approval of the proposed measures and standards. As evidenced by the Virginia  
5 Commission's Staff's recommendation that the Virginia Commission accept  
6 Verizon VA's proposed implementation timeline, Verizon VA's implementation  
7 claims are "credible." Implementation of reporting the various measurements  
8 must be complete before making associated remedies payable. Accordingly, even  
9 using the consensus measures arising from the Virginia Collaborative presents an  
10 implementation problem for an interim remedies plan unlike Verizon VA's  
11 interim proposal that relies on already-implemented standards and measures.

12  
13 Beyond the implementation difficulties, the New York Plan suffers from a number  
14 of significant problems. First, the New York Plan is an "avalanche" plan that  
15 imposes penalties disproportionate to the failure to meet the performance  
16 standards. Second, the New York Plan is a "top-down" plan that allocates  
17 remedies associated with aggregate industry performance rather than performance  
18 relative to WorldCom or AT&T particularly. Third, the New York Plan lacks  
19 even the statistical validity of Verizon VA's interim plan. Fourth, the New York  
20 Plan is complicated, making it particularly inappropriate for either interim use or  
21 incorporation for an individual CLEC in an interconnection agreement.

1   **Q.    PLEASE EXPLAIN YOUR CRITICISM THAT THE NEW YORK PLAN**  
2       **IS AN “AVALANCHE” PLAN.**

3    A.    The focus of the New York Plan is primarily on setting large penalties payable for  
4           uncertain or trivial performance differences. Even an interim PAP should not be  
5           used as a source of revenue for WorldCom or AT&T, but to provide adequate  
6           incentives to Verizon VA to comply with the established performances  
7           measurements. Far from further this goal, the New York PAP is not sensitive to  
8           changes in performance. The New York Plan requires that certain “critical  
9           measures” be assigned specific dollar amounts to determine the level of  
10          importance of these measures in calculating total incentive amounts. The Verizon  
11          VA interim proposal is not graduated by severity or degree of the miss -- either  
12          the performance standard is met or it is not. Thus, unlike the New York Plan, the  
13          Verizon VA interim proposal places more dollars at risk precisely where each  
14          either WorldCom or AT&T has the greatest volume of activity and where service  
15          has not met the established standard.

16  
17   **Q.    PLEASE EXPLAIN YOUR CRITICISM THAT THE NEW YORK PLAN**  
18       **IS A “TOP DOWN” PLAN.**

19   A.    Whereas the Verizon VA interim proposal to this Commission generally reflects  
20          the actual performance provided to AT&T and WorldCom, the New York Plan is  
21          a “top-down” plan—one in which a set amount of dollars is available for remedy  
22          payments, and these dollars are then parsed out to CLECs based on market share.  
23          The top-down approach is particularly inappropriate in a plan that AT&T and

1 WorldCom claim should be incorporated into their respective interconnection  
2 agreements while the Virginia Commission is in the immediate process of  
3 considering what measures or remedies are appropriate on an industry-wide basis.  
4

5 Even beyond the fact that a top-down plan makes no sense for inclusion in an  
6 interconnection agreement, it makes no sense because a top-down plan could  
7 result in remedies payments to carriers irrespective of whether Verizon VA  
8 “missed” the performance standard for that carrier or carriers. Take the case  
9 where a small CLEC received substandard performance on a particular measure  
10 (that can be assessed on a CLEC-specific basis), while the large CLECs received  
11 good performance. Under the Verizon VA plan, under the New York Plan, the  
12 small CLEC may get virtually none of the remedy payment, which would instead  
13 go to larger CLECs that were wholly unaffected by the miss. By looking only at  
14 market share, the New York Plan ensures that larger CLECs, such as AT&T,  
15 receive the lion’s share of the payments, regardless of whether they have received  
16 the lion’s share of the “harm” captured by a particular measurement “miss.”  
17 Obviously this is unfair. Not only is this market share allocation method less  
18 equitable, it makes the New York Plan inappropriate for incorporation into  
19 individual interconnection agreements. By proposing incorporation of the New  
20 York Plan into an interconnection agreement, WorldCom seeks payments based  
21 on Verizon VA’s performance relative to the entire industry -- for which the Plan  
22 will not be in effect -- and not WorldCom alone  
23

1     **Q.     PLEASE EXPLAIN YOUR CRITICISM THAT THE NEW YORK PLAN**  
2     **IS NOT STATISTICALLY VALID.**

3     A.     The Verizon VA interim proposal is more accurate and statistically valid in  
4     evaluating performance than is the New York Plan. For parity metrics, the New  
5     York Plan bases incentive payments on the Z-statistic, or the confidence of the  
6     “miss,” instead of on the actual difference in performance. For the reasons we  
7     have previously discussed, this methodology is unreliable. With respect to the  
8     New York Plan, the Z-statistic can generate distorted incentives. By focusing on  
9     the actual performance to either AT&T or WorldCom, Verizon VA’s interim PAP  
10    creates the proper incentives and encourages Verizon VA to address performance  
11    issues based on their severity.

12  
13    **Q.     PLEASE EXPLAIN YOUR CRITICISM THAT THE NEW YORK PLAN**  
14    **IS TOO COMPLICATED.**

15    A.     The New York Plan is extremely complex, unwieldy, and difficult to administer.  
16    The New York Plan is not one coherent and integrated plan, but a series of  
17    interconnected and overlapping plans that require the determination and analysis  
18    of several different segments—“modes of entry,” “critical measures,” and “special  
19    provisions.” Administering the New York Plan requires an examination of the  
20    “caps within caps” for different segments, and includes a complicated scoring  
21    method. As a result, the New York Plan offers decreased accessibility and  
22    predictability, requires more intervention from the Commission in operation, and  
23    fails to provide clear guidance to Verizon VA in improving its service. In

1 contrast, the Verizon VA interim plan is a simple, easily understood plan.

2 Performance is assessed separately for most measures and standards that cover  
3 any significant aspect of Verizon VA's performance, and remedy payments are  
4 calculated in a straightforward manner based on volume of substandard service  
5 provided.

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

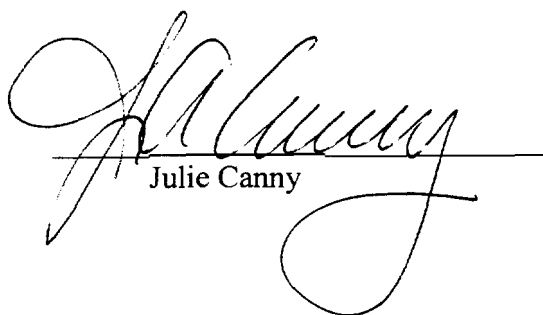
8 A. Yes.

9

**Declaration of Julie Canny**

I declare under penalty of perjury that I have reviewed the foregoing testimony and that those sections as to which I testified are true and correct.

Executed this 20<sup>th</sup> day of November, 2001.

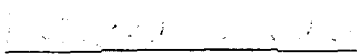


Julie Canny

**Declaration of Monique M. Lynnes**

I declare under penalty of perjury that I have reviewed the foregoing testimony and that those sections as to which I testified are true and correct.

Executed this 20<sup>th</sup> day of November, 2001.

  
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Monique Lynnes